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Early financial planning, less worry



John Schooler

Your deadlines at work are impossibly tight. Your to-do list gets longer every time you turn around. With constantly shuttling the kids to Little League and piano lessons, it's no wonder your financial life gets short shrift.

Yet, however good your excuse, failing to plan your financial future is a costly mistake.

Most Americans lack a formal financial plan, according to the Certified Financial Planner Board of Standards' 2004 Consumer Survey.

Yet the same survey finds those with a written financial plan are more satisfied with how their finances are managed, more confident about their financial decisions, and less worried about being financially secure at retirement.

Financial planning doesn't start with deciding where to invest your money, and those who arrive at the door of a financial planner asking "Where should I invest?" are likely to be greeted with two words: "Slow down." You need to step back, assess your current financial situation, identify short- and long-term goals and your risk tolerance, and figure out your timetable—what will you need, and when will you need it?

To create a financial plan, an adviser first must probe the details of your financial situation.

We focus on a financial strategy that is based truly on what's important to them. This allows them to make sure that every part of their financial plan is in harmony with them achieving their goals, while keeping their values in context.

We want to develop their goals from that value discussion. Having the clarity of their values and what's truly important to them about money is an important process, and for a couple, it's almost totally essential.

I use a technique developed by Bill Bachrach. He writes about this technique in his book "Values-Based Financial Planning." We start the conversation with what is important about money to you. This discovery process is very important for the client.

After the values discussion, an adviser must probe the details of your financial situation.

- What are your objectives?
- How do you feel about risk?
- How old are your children, and where do they want to go to college?
- What kind of pension or 401(k) plan do you have at work?
- Are you hoping to leave an inheritance for your children, or are you willing to exhaust your savings in retirement?

Those objectives, in turn, are based on what college will cost, the income you'll need in retirement, the amount you want to leave to your children etc. You also need to consider asset protection—though again, don't rush to buy insurance until your financial plan is in place. It may help you decide what coverage you really need, and which options and riders make sense.

Beyond pointing to the obvious homeowners and automobile coverage, your plan will guide you to the right life, health, umbrella liability and disability policies and look at any unique liabilities associated with your work or your participation in community activities or corporate boards.

By presenting a broad view, your financial plan helps you understand how each financial decision affects other areas of your finances. For example, suppose you receive an inheritance and use it to pay off your mortgage.

That frees up more of your earnings to put into your retirement plan. But your taxes rise because you've lost your mortgage interest deduction, and your expanding net worth means estate taxes could become a problem.

Like a compass, your financial plan keeps you pointed in the right direction even as your life inevitably changes. What's more, the comprehensive nature of financial planning should help you avoid major mistakes— from choosing a high-flying mutual fund with no regard for its risk to overestimating how much you can safely withdraw from your nest egg.

Developing a plan takes time, but often, simply articulating your values, hopes, and dreams can increase your motivation to save.

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Your plan also enables you to chart your progress. Review and regularly revise it as needed, and it will be a road map that can last a lifetime.

Before having a financial plan prepared, there are some important considerations:

- Who will prepare the plan? The person who prepares the plan should present it. He or she will know how the numbers were derived and will be able to present alternatives.
- How many plans has the individual prepared? There is no substitute for experience. Ask to see a sample plan.
- How much will the plan cost? The amount will vary depending on the plan's complexity. Fees range from several hundred to thousands of dollars. If you are buying a fancy financial plan for a nominal amount, be aware that a sales pitch might follow.

Most importantly, no financial plan is a once-and-done document. It's part of an ongoing process of checking progress, making adjustments and getting back on track when life derails your best-laid plans.

If you have another child, receive an inheritance, lose your job or get divorced, a good financial plan, like a helping hand, should be able to pull things back together again.

Now is the time to start setting your goals for 2006. The sooner you get on the planning road, the better.

As Yogi Berra once said, "If you don't know where you are going, chances are you will end up somewhere else."

For questions, contact John Schooler at john@wfpsecurities.com or (858) 677-0477. John Schooler is the President of Western Financial Advisors and WFP Securities.